

Axis Bank

Healthy operating performance, provisions rise

Axis Bank's Q4FY20 was marked by healthy operating performance led by loan growth though provisions rose on the COVID-19 impact. NII/PPoP grew 19.3%/ 16.7% YoY. Provisions rose sharply QoQ to Rs.77.3bn led by 1) Rs.12bn due to moratorium 2) Rs.19bn of additional provisioning given a base case stressed scenario and 3) Rs.4.75bn due to 7th June circular. Management commentary remains cautious on growth and asset quality due to lockdown related uncertainty. We keep our loan growth estimates though raise our provisions. CAR remains strong at 13.3%/17.5% CET-1/CRAR. We maintain our multiple at 1.8x and TP at Rs569. BUY

Q4FY20 results - healthy loan growth, lower slippages though higher provisions

NII surprised positively and came in at Rs.68bn, +19.3% YoY (est. Rs.61.5bn) driven by higher NIM (calc.) at 3.14% (est. 2.85%). Loans grew 15.5% YoY (est. 15.0%). Deposits saw +16.7% YoY growth with CA/SA/RTD accretion being +11%/13%/33% YoY. Other income was up 13% YoY to ~Rs.40bn. PPOP came in at Rs.58.5bn +16.7% YoY (est. Rs.52bn). Provisions were higher at Rs.77.3bn (est. Rs.44bn) of which Rs.30bn was towards COVID-19. Slippages were lower at Rs.39.2bn while GNPA/NNPA improved QoQ by 19bps/57bps to 5.10%/1.64%. Loss was Rs13bn (est. PAT Rs5.6bn).

Loan growth led by retail, 95% incremental corporate A- and Above

Loan growth was mainly led by retail/corporate at 24.2%/11.3% YoY. SME de-grew by 5.6% YoY. In retail, 80% of the book is secured and of the balance unsecured, 82% are salaried customers. 85% of the SME book is secured with the balance being majorly supply chain players of existing clients. 83% of Corporate book is now rated A and above with 95% of incremental sanctions in FY20 being to A- and above.

Slippages moderated QoQ; COVID-19 related provisions increase credit costs

Slippages moderated to Rs.39.2bn vs Rs.62bn QoQ with 84% of the corporate slippages came from the BB and below pool. Moratorium was availed by 10-12% customers or 25% of overall loans in value. Ignoring asset the classification benefit, additional impact would have been Rs.6.9bn on slippages, Rs.3.4bn on provisions and increase in GNPA/NNPA by 11/6bps. Provisions rose sharply QoQ to Rs.77.3bn with Rs.30bn due to COVID-19 and Rs.4.75bn due to additional provision basis 7th June circular. Out of Rs.30bn, additional provisions of Rs.18.8bn were made basis stress testing of how the COVID-19 would evolve. Total additional provisions as at Q4FY20 are Rs.60bn.

Bank plans to acquire additional 29% in Max Life; deal might close in 6-9 months

Bank has entered into arrangement to acquire 29% additional stake in Max Life. (taking the total stake to 30%). RBI nod for the same is pending. Max Fin – Max Life will undergo a reverse merger in 12-18m. Axis Bank contributes 55% to gross premiums.

Valuation and risks

Our loan growth est. is unchanged though we have raised our provisions for FY21/22E as the lockdown has been extended till May 3rd. FY21E would be tough for banks though select banks like Axis would gain market share owing to their strong franchises. We maintain our multiple at 1.8x FY22E ABV and TP at 569. Maintain BUY. Risks: execution on loan growth and slower-than-expected recoveries or higher slippages.

Financial and valuation summary

YE Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20P	FY21E	FY22E
NII	68,077	57,056	19.3	64,533	5.5	252,065	274,981	323,218
PPoP	58,511	50,144	16.7	57,434	1.9	234,388	264,002	313,688
Provisions	77,300	27,114	185.1	34,710	122.7	185,339	156,159	161,104
Net profit	(13,878)	15,051	NA	17,574	NA	16,277	80,667	114,133
Loan growth (%)	15.5	12.5	2.9	15.8	(0.3)	15.5	13.5	16.0
NIM (%)	3.14	2.93	21bps	3.17	(3bps)	3.50	3.45	3.45
C / I (%)	45.8	45.7	0.1	43.9	1.9	42.5	42.0	41.0
GNPA (%)	5.1	5.8	(70bps)	5.3	(19bps)	5.1	5.6	5.2
RoA (%)	(0.6)	0.8	(1.4)	0.9	(1.5)	0.2	0.8	1.0
RoE (%)	(6.5)	9.0	(15.5)	8.3	(14.8)	2.1	9.2	11.9

Source: Company, Centrum Research estimates

Please see Appendix for analyst certifications and all other important disclosures. In the interest of timeliness, this document is not edited.

Result Update

India I Banks

29 April 2020

BUY

Target Price: Rs569

Price: Rs458

Forecast return: 24%

Institutional Research

Market Data

Bloomberg:	AXSB IN
52 week H/L:	Rs828/285
Market cap:	Rs1285bn
Shares outstanding:	2821mn
Free float:	84.7%
Avg. daily vol. 3mth:	24670330

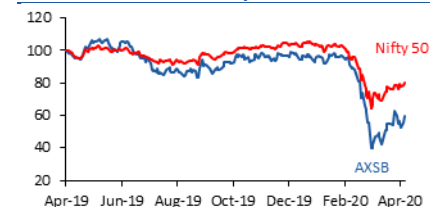
Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EPS:	(9.2)% FY21E, (7.9)% FY22E

Source: Centrum Research

Axis Bank relative to Nifty 50



Source: Bloomberg

Shareholding pattern

	Mar-20	Dec-19	Sep-19	Jun-19
Promoter	16.0	16.1	16.6	18.1
FIIs	45.5	48.4	48.2	48.2
DIIs	22.8	21.0	20.4	17.9
Public/oth	15.7	14.6	14.8	15.8

Source: BSE



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BSI

Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY21E New	FY21E Old	% chg	FY22E New	FY22E Old	% chg
NII	274,981	277,737	(1.0)	323,218	332,052	(2.7)
PPoP	264,002	264,605	(0.2)	313,688	315,714	(0.6)
Net profit	80,667	88,879	(9.2)	114,133	123,982	(7.9)
Loan growth (%)	13.5	13.5	0	16.0	16.0	0
GNPA	5.6	5.6	0	5.2	5.2	0

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q4FY20	Centrum Q4FY20	Variance (%)
NII	68,077	61,486	10.7
PPoP	58,511	51,636	0.1
PAT	(13,878)	5,646	NA
Loan growth (%)	15.5	15.0	49bps
GNPA (%)	5.10	5.63	(53bps)

Source: Bloomberg, Centrum Research estimates.

Axis Bank versus Nifty 50

	1m	6m	1 year
AXSB IN	26.6	(35.9)	(40.1)
Nifty 50	8.3	(19.3)	(20.2)

Source: Bloomberg, NSE

Key assumptions

YE Mar (%)	FY21E	FY22E
Loan growth	13.5	16.0
NIM	3.45	3.45
Other inc / Assets	1.9	1.9
Cost / Assets	2.0	2.0
Provision costs	2.56	2.30

Source: Centrum Research estimates

Valuations

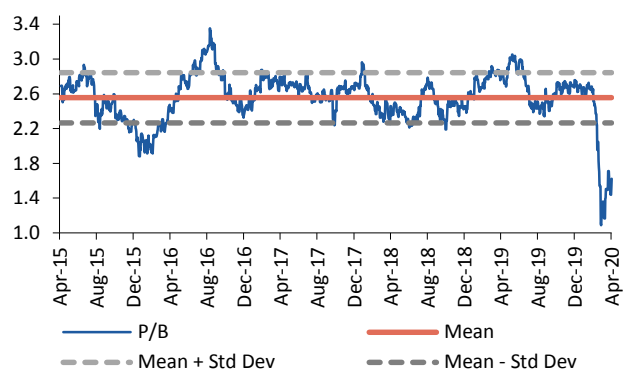
Valuation and risks

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Valuations

FY22E ABVPS (Rs)	308
Historical P/ABV (x)	2.6
Discount assigned	(29.0%)
Ascribed P/ABV (x)	1.8
Target price (Rs)	569

P/ABV mean and standard deviation



Sensitivity analysis

	Provision cost				
	+10bps	+5bps	Current levels	-5bps	-10bps
- 10bps	(10.4)	(8.1)	(5.8)	(3.6)	(1.3)
- 5bps	(7.5)	(5.2)	(2.9)	(0.6)	1.7
Current levels	(4.6)	(2.3)	-	2.3	4.6
+ 5bps	(1.7)	0.6	2.9	5.2	7.5
+ 10bps	1.3	3.6	5.8	8.1	10.4

Source: Bloomberg, Centrum Research estimates

Peer comparison

Company	Mkt Cap Rs bn	CAGR FY19-FY22E (%)			P/BVPS				RoA (%)				RoE (%)			
		Total inc	PPOP	PAT	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Axis	1,285.4	15.1	18.2	34.6	2.3	1.5	1.4	1.3	0.6	0.2	0.8	1.0	7.2	2.1	9.2	11.9
SBI	1,644.8	8.2	10.4	228.5	1.5	0.7	0.7	0.6	0.0	0.4	0.4	0.7	0.4	6.9	5.8	11.5
ICICI	2,328.7	15.5	17.9	82.1	2.0	2.0	1.7	1.5	0.4	0.9	1.4	1.5	3.2	8.0	13.8	14.4
HDFC	5,107.1	18.1	27.6	23.9	3.4	3.1	2.7	2.3	1.8	2.0	2.1	2.1	16.5	16.8	18.1	18.8
Kotak	2,536.9	18.5	24.9	24.8	5.2	4.8	4.2	3.7	1.7	1.9	2.0	2.0	12.1	14.1	14.6	15.1

Source: Company, Centrum Research estimates

Fig 1: Key concall takeaways and metrics

FY21E Guidance	Q4FY20	Q3FY20	Our Comments
Loan growth	NA	500-700bps above industry growth	Axis Bank is conservative in this unprecedented environment, and focus is on liquidity and capital conservation. Credit standards have been tightened over the last 1 year and the bank would remain cautious. We expect larger private banks (HDFC, ICICI, Axis) to benefit from the existing scenario given that these entities have a strong distribution network, the PSU space is grappling with integration issues and asset quality woes. We factor in a loan growth of 13.5% in FY21.
NIM	NA	3.5% - 3.8% range through FY22	For FY21E we may see additional slippages which might lead to interest reversals leading to NIM contraction though market share gains and tepid interest environment could result in lower funding cost which would protect FY21E NIM. We see a slight NIM contraction to 3.45% in FY21.
Cost to Avg Assets	NA	Improvement to 200bps	The management alluded that they would focus on improving employee productivity as COVID-19 has led employees to work from home. Also branch expansion plans are slowing down due to focus on digital/contactless transactions. We expect a opex/avg. assets to remain at 2.0% over FY20-22E.
Credit Cost	NA	FY22: 100bps	We factor in higher provision cost at near peak levels (before adjusting for floating provision), given the uncertainty regarding actual stress and the fact that this pandemic would affect every sector/company. We expect slippages/downgrades in the coming quarters though additional provisioning of Rs60bn is comforting. We estimate credit costs of 256bps in FY21E.
RoE	NA	FY22: 18%	The management refrained from giving any guidance due to the lockdown related uncertainty and the situation being fluid. We expect RoA/RoE 0.8%/9.2% in FY21E. For FY22 we envisage an RoA/RoE of 1%/12%.

Source: Company, Centrum Research estimates

Fig 2: Quarterly financials

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Interest earned	127,770	132,810	141,297	147,980	152,550	154,378	157,083	162,341
Interest expended	76,102	80,489	85,261	90,924	94,113	93,360	92,550	94,264
Net Interest Income	51,668	52,321	56,037	57,056	58,437	61,018	64,533	68,077
Other income	29,250	26,784	40,007	35,263	38,687	38,958	37,870	39,855
Total Income	80,918	79,105	96,044	92,319	97,124	99,976	102,403	107,932
Operating Expenses	37,198	38,165	40,797	42,175	38,197	40,460	44,969	49,421
Employees	12,278	11,747	12,026	11,423	13,068	12,750	13,652	13,740
Others	24,920	26,418	28,771	30,752	25,128	27,711	31,316	35,681
Operating profit	43,720	40,940	55,247	50,144	58,927	59,516	57,434	58,511
Provisions	33,377	29,274	30,545	27,114	38,145	35,184	34,710	77,300
Profit before tax	10,343	11,666	24,702	23,030	20,782	24,332	22,724	(18,789)
Taxes	3,333	3,770	7,893	7,979	7,081	25,453	5,150	(4,911)
Net Profit	7,011	7,896	16,809	15,051	13,701	(1,121)	17,574	(13,878)
Balance sheet items								
Share capital	5,136	5,138	5,140	5,143	5,239	5,638	5,640	5,643
Reserves & surplus	636,725	645,454	661,839	661,620	707,037	833,116	856,340	843,835
Deposits	4,470,793	4,796,796	5,140,921	5,484,710	5,406,780	5,839,585	5,916,760	6,401,050
Borrowings	1,522,271	1,483,994	1,446,694	1,527,758	1,301,214	1,089,454	1,120,070	1,479,541
Other liabilities	291,934	374,075	307,170	330,731	325,395	325,151	291,580	421,579
Total liabilities	6,926,859	7,305,456	7,561,764	8,009,962	7,745,665	8,092,944	8,190,390	9,151,649
Cash & bank	276,378	392,078	381,380	350,987	284,283	464,599	319,595	849,592
Interbank & call	121,487	94,962	175,982	321,056	98,489	106,137	93,519	123,090
Investments	1,546,136	1,556,851	1,610,358	1,749,693	1,757,915	1,617,154	1,559,792	1,567,343
Advances	4,410,745	4,561,213	4,751,049	4,947,980	4,972,760	5,215,937	5,501,377	5,714,242
Fixed assets	572,113	700,353	642,996	640,247	632,218	689,116	716,107	897,381
Total assets	6,926,859	7,305,456	7,561,764	8,009,962	7,745,665	8,092,944	8,190,390	9,151,648
Balance sheet ratios (%)								
Loan growth	14.4	11.2	12.9	12.5	12.7	14.4	15.8	15.5
Deposit growth	13.5	15.2	25.7	20.9	20.9	21.7	15.1	16.7
Loans / Deposits	98.7	95.1	92.4	90.2	92.0	89.3	93.0	89.3
CASA	46.9	47.7	45.8	44.4	41.3	41.1	41.2	41.2
Investment / Deposits	34.6	32.5	31.3	31.9	32.5	27.7	26.4	24.5
Balance sheet ratios								
Tier-1	13.2	13.0	13.1	12.5	12.9	15.0	15.5	14.5
Tier-2	3.5	3.4	3.3	3.3	3.2	3.2	3.2	3.0
CRAR	16.7	16.5	16.4	15.8	16.1	18.2	18.7	17.5
Profitability ratios (%)								
Yield on assets	8.5	8.6	8.9	8.7	8.8	9.0	8.9	8.9
Cost of funds	5.1	5.2	5.3	5.3	5.5	5.5	5.3	5.1
NIM	2.99	2.94	3.02	2.93	2.97	3.08	3.17	3.14
Other income / Assets	1.7	1.5	2.2	1.8	2.0	2.0	1.9	1.8
Cost / Income	46.0	48.2	42.5	45.7	39.3	40.5	43.9	45.8
Cost / Assets	2.15	2.15	2.20	2.17	1.94	2.04	2.21	2.3
RoE	4.4	4.9	10.2	9.0	7.9	-0.6	8.3	(6.5)
RoA	0.4	0.4	0.9	0.8	0.7	-0.1	0.9	(0.6)
EPS (Rs)	2.7	3.1	6.5	5.9	5.2	-0.4	6.2	(4.9)
BVPS (Rs)	250.0	253.2	259.5	259.3	271.9	297.5	305.7	301.1
Asset quality ratios (%)								
GNPA	7.1	6.5	6.2	5.8	5.7	5.4	5.3	5.1
NNPA	3.4	2.8	2.6	2.3	2.2	2.1	2.2	1.6
Provision coverage	54.4	58.9	60.4	62.1	62.5	61.7	59.6	69.0
Provision costs	3.0	2.6	2.6	2.2	3.1	2.8	2.6	5.5
Slippage	3.9	2.4	3.2	2.4	3.9	3.8	4.5	2.7
NNPA / Equity	23.2	19.5	18.3	16.9	15.5	13.3	14.1	11.0

Source: Company, Centrum Research

P&L	FY18	FY19	FY20P	FY21E	FY22E
Interest earned	457,803	549,858	626,352	669,519	782,281
Interest expended	271,626	332,776	374,286	394,538	459,063
Net Interest Income	186,177	217,082	252,065	274,981	323,218
Other income	109,671	131,303	155,369	180,195	208,456
Total Income	295,848	348,385	407,435	455,176	531,674
Operating Expenses	139,903	158,334	173,046	191,174	217,986
Employees	43,130	47,473	51,508	55,990	60,861
Others	96,774	110,861	121,538	135,184	157,126
Operating profit	155,945	190,051	234,388	264,002	313,688
Provisions	154,729	120,310	185,339	156,159	161,104
Profit before tax	1,216	69,741	49,049	107,843	152,584
Taxes	(1,541)	22,975	32,772	27,177	38,451
Net Profit	2,757	46,766	16,277	80,667	114,133

Ratios	FY18	FY19	FY20P	FY21E	FY22E
Growth (%)					
Loans	17.8	12.5	15.5	13.5	16.0
Deposits	9.5	20.9	16.7	13.5	17.0
RWA	9.6	6.6	11.1	14.5	15.8
NII	2.9	16.6	16.1	9.1	17.5
Other income	(6.2)	19.7	18.3	16.0	15.7
Opex	14.7	13.2	9.3	10.5	14.0
PPOP	(11.3)	21.9	23.3	12.6	18.8
Provisions	27.7	(22.2)	54.1	(15.7)	3.2
PAT	(92.5)	1,596.4	(65.2)	395.6	41.5
Profitability (%)					
Yield on assets	8.2	8.4	8.7	8.4	8.4
Cost of funds	4.8	5.1	5.0	4.7	4.7
Spread	3.3	3.3	3.7	3.7	3.6
NIM (calc.)	3.32	3.33	3.50	3.45	3.45
Other income / Total income	37.1	37.7	38.1	39.6	39.2
Other income / avg assets	1.7	1.8	1.8	1.9	1.9
Cost/Income	47.3	45.4	42.5	42.0	41.0
Opex/ Avg assets	2.2	2.1	2.0	2.0	2.0
Provisioning cost	3.6	2.3	3.5	2.6	2.3
Credit Cost	3.6	1.9	2.9	2.1	1.9
Tax rate	(126.8)	33.5	66.8	25.2	25.2
RoE	0.5	7.2	2.1	9.2	11.9
RoA	0.0	0.6	0.2	0.8	1.0
RoRWA	0.1	0.9	0.3	1.2	1.5
Du-pont (%)					
Interest income	7.1	7.4	7.3	6.9	7.0
Interest expenses	4.2	4.5	4.4	4.1	4.1
NII	2.9	2.9	2.9	2.8	2.9
Other income	1.7	1.8	1.8	1.9	1.9
Total income	4.6	4.7	4.7	4.7	4.8
Operating expenses	2.2	2.1	2.0	2.0	2.0
PPOP	2.4	2.5	2.7	2.7	2.8
Provisions	2.4	1.6	2.2	1.6	1.4
PBT	0.0	0.9	0.6	1.1	1.4
Tax	0.0	0.3	0.4	0.3	0.3
RoA	0.0	0.6	0.2	0.8	1.0

Source: Company, Centrum Research estimates

Balance Sheet	FY18	FY19	FY20P	FY21E	FY22E
Share capital	5,133	5,143	5,643	5,643	5,643
Reserves & surplus	629,320	661,620	843,835	904,092	997,814
Deposits	4,536,227	5,484,713	6,401,050	7,265,192	8,500,274
Borrowings	1,480,161	1,527,758	1,479,541	1,682,089	1,968,044
Other Liabilities	262,455	330,731	421,579	471,896	494,115
Total liabilities	6,913,296	8,009,965	9,151,649	10,328,911	11,965,891
Cash balances with RBI	354,811	350,987	849,593	715,782	523,416
Balances with banks	79,738	321,059	123,090	125,306	127,562
Investments	1,538,761	1,749,693	1,567,343	1,925,276	2,550,082
Advances	4,396,503	4,947,980	5,714,242	6,485,664	7,523,370
Fixed assets	39,717	40,366	43,129	43,992	44,871
Other assets	503,766	599,880	854,252	1,032,891	1,196,589
Total assets	6,913,296	8,009,965	9,151,649	10,328,911	11,965,891

Ratios	FY18	FY19	FY20P	FY21E	FY22E
Balance Sheet (%)					
Loans / Deposits	96.9	90.2	89.3	89.3	88.5
Investments / Deposits	33.9	31.9	24.5	26.5	30.0
CASA	53.8	44.4	41.2	42.1	43.1
Assets/equity (x)	10.9	12.0	10.8	11.4	11.9
RWA / Total assets	74.9	68.9	67.0	68.0	68.0
Capital (%)					
CET-1	11.7	11.3	13.3	12.5	11.9
Tier-1	13.0	12.5	14.5	13.6	12.9
Tier-2	3.5	3.3	3.0	2.7	2.3
CRAR	16.6	15.8	17.5	16.2	15.2
Asset quality (%)					
GNPA (Rs mn)	342,486	297,896	302,346	377,137	405,119
NNPA (Rs mn)	165,917	112,756	93,602	124,455	133,689
GNPA	7.3	5.6	5.1	5.6	5.2
NNPA	3.8	2.3	1.6	1.9	1.8
PCR	50.7	61.6	69.0	67.0	67.0
Slippage	7.6	2.8	3.7	4.2	3.6
NNPA / Equity	26.2	16.9	11.0	13.7	13.3
Per share (Rs)					
EPS	1.1	18.2	5.8	28.6	40.4
DPS	5.0	1.0	0.0	6.0	6.0
BVPS	247.2	259.3	301.1	322.4	355.6
ABVPS	182.6	215.4	267.9	278.3	308.2
Valuation (x)					
P/E	463.9	33.2	79.3	16.0	11.3
P/BV	2.0	2.3	1.5	1.4	1.3
P/ABV	2.7	2.8	1.7	1.6	1.5

Source: Company, Centrum Research estimates

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Source: Bloomberg

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